

SAMPLE HOSPITAL
AUDIT REPORT SUPPLEMENT
JUNE 30, 2005

Office of
**AUDITOR
OF STATE**
State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
Auditor of State



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Fellow CPAs:

This sample report has been prepared by the Office of Auditor of State as required by Chapter 11.6 of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client.

For the year ended June 30, 2005, guidance on changes and updates is provided in this supplement format. This supplement should be used in conjunction with the fiscal 2004 sample report previously issued by this office.

Audits of public hospitals should be performed in accordance with U.S. generally accepted auditing standards, standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and, if applicable, the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Additional guidance is provided in the Audit and Accounting Guide, Health Care Organizations, issued by the American Institute of Certified Public Accountants.

Beginning with audits for the fiscal year ended June 30, 2005, references to Chapter 11 of the Code of Iowa in the Independent Auditor's Report (1) on the financial statements, (2) on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and (3) on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 are no longer required. We have determined the Chapter 11 audit requirements are met through the application of generally accepted auditing standards and Government Auditing Standards. This change does NOT affect the audit procedures to be applied in auditing compliance with the requirements of Chapter 11, such as a review of internal control and testing of transactions for compliance. This is only a change in reporting.

Sample Hospital is an example of a report for a hospital established under Chapter 347 of the Code of Iowa. This sample has been prepared in accordance with U.S. generally accepted accounting principles.

The format displays the financial statements, required and other supplementary information and Schedule of Findings and Questioned Costs which are necessary to meet the requirements of this office. The detail presented in the financial statements and supplementary information is the minimum breakdown that will be acceptable, subject, of course, to materiality considerations. If the auditor and the Hospital feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations. The auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

Entities with \$500,000 or more of federal expenditures are required to receive a Single Audit in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Any questions concerning Single Audit requirements should be directed to the Hospital's cognizant or oversight agency.

In accordance with OMB Circular A-133, one copy of the reporting package and Data Collection Form shall be submitted within 30 days after issuance of the audit report to a central clearinghouse. The Data Collection Form is available by calling 1-800-253-0696 (Form number SF-SAC) or on the Federal Audit Clearinghouse (FAC) website at <http://harvester.census.gov/sac/>. Auditees are encouraged to use the on-line Internet submission option available on the FAC website. Submission of the on-line Internet Form SF-SAC will require the user to submit a hard copy of the final form with the auditee and auditor signatures. Additional copies of the reporting package or notifications of audit should be submitted to the central clearinghouse or to grantor pass-through entities in accordance with the filing requirements of the Circular.

The Office of Management and Budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. Reporting packages should be submitted to:

Federal Audit Clearinghouse
1201 E. 10 Street
Jeffersonville, IN 47132

The findings on compliance, items IV-A-04 through IV-G-04 (as noted in the June 30, 2004 sample report), detail those items which are to be commented on regardless of whether there are any instances of non-compliance or not. Any instances of non-compliance in other areas should also be reported.

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

Reports, including the management letter(s) if issued separately, are to be filed with this office within nine months following the end of the fiscal year subject to audit. However, reports should be filed with this office upon release to the Hospital. The per diem audit billing (including fee, expenses and hours) should be submitted with the reports filed with this office. Public access to reports issued by the Auditor of State and by CPA firms will be available through the internet. To allow this, you should submit an electronic copy of each FY2005 audit report, in PDF format, to our office in addition to the two paper copies submitted. The PDF files should be e-mailed to submitreports@auditor.state.ia.us. If you are unable to e-mail the file, you may mail a CD containing the PDF file to our office. You may direct any questions about submitting the electronic copy of the audit report to the above e-mail address.

As required by Chapter 11 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the Hospital for the notification. We have developed a standard news release to be used for this purpose. The news release may be completed by the Hospital and a copy should be sent to this office with two copies of the audit report sent by the CPA firm. We will make a copy of the audit report and news release available to the news media in our office.

In accordance with Chapter 11 of the Code of Iowa, this office is to be notified immediately of any suspected embezzlement or theft.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to public hospitals. Together, we are able to provide a significant benefit to all taxpayers in the state.

DAVID A. VAUDT, CPA
Auditor of State

Sample Hospital
Audit Report Supplement
June 30, 2005

For the fiscal year ended June 30, 2005, guidance on changes and updates is provided in this 2005 Audit Report Supplement. This supplement should be used in conjunction with the fiscal 2004 sample report previously issued by this office.

News Release

1. Delete 2nd paragraph regarding implementation of new reporting standard.

Independent Auditor's Report (IAR)

2. Replace with the attached report.

Management's Discussion and Analysis (MD&A)

3. Financial Analysis of the Hospital Section – The tables including financial information should include the financial data for three fiscal years and the discussion that follows this table should include explanations for increases or decreases from FY2004 to FY2005 and from FY2003 to FY2004.

Notes to the Financial Statements

4. Note 1 Summary of Significant Accounting Policies – Section B Basis of Presentation – Delete first two paragraphs regarding implementation of new reporting standard. Delete last paragraph regarding reclassification for the year ended June 30, 2003.
5. Note 2 Cash and Pooled Investments – replace with the attached note.

Required Supplementary Information (RSI)

6. Notes to RSI – Budgetary Reporting – replace with attached note.

Other Supplementary Information

7. Schedule 9, Schedule of Expenditures of Federal Awards – change the program names as follows:

<u>Program Name FY04</u>	<u>Program Name FY05</u>	<u>CFDA Number</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	Grants to Provide Outpatient Early Prevention Services with Respect to HIV Disease	93.918

Independent Auditor's Report on Compliance and Internal Control over Financial Reporting

8. Replace with the attached report.

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance

9. Replace with the attached report.



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Independent Auditor's Report

To the Board of Trustees
of Sample Hospital:

We have audited the accompanying basic financial statements of Sample Hospital as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of Sample Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Hospital as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As more fully described in Note 10, claims in excess of professional liability insurance coverage have been asserted against Sample Hospital. Legal counsel and management are unable to estimate the ultimate cost, if any, that may result from the resolution of those claims. Accordingly, no provision for claims in excess of professional liability insurance has been made in the accompanying financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2005 on our consideration of Sample Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 8 through 11 and 28 through 29 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Sample Hospital's basic financial statements. Other supplementary information included in Schedules 1 through 9, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 20, 2005

DAVID A. VAUDT, CPA
Auditor of State

Sample Hospital
Audit Report Supplement
June 30, 2005

(2) Cash and Investments

The Hospital's deposits in banks at June 30, 2005 and 2004 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

At June 30, 2005 and 2004 the Hospital's investments are as follows:

<u>Type</u>	<u>Fair Value</u>	<u>Maturity</u>
U.S. Treasury Bonds, June 30, 2005	<u>\$ 300,000</u>	January 2006
U.S. Treasury Bonds, June 30, 2004	<u>\$ 228,000</u>	November 2004

Interest rate risk. The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

Sample Hospital

**Notes to Required Supplementary Information
Budgetary Reporting**

June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.



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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
of Sample Hospital:

We have audited the accompanying financial statements of Sample Hospital as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated September 20, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sample Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Sample Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sample Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Sample Hospital and other parties to whom Sample Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sample Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 20, 2005

DAVID A. VAUDT, CPA
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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Trustees
of Sample Hospital:

Compliance

We have audited the compliance of Sample Hospital with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. Sample Hospital's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to its major federal program is the responsibility of Sample Hospital's management. Our responsibility is to express an opinion on Sample Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sample Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Sample Hospital's compliance with those requirements.

In our opinion, Sample Hospital complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Sample Hospital is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants agreements applicable to federal programs. In planning and performing our audit, we considered Sample Hospital's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Sample Hospital's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants agreements. The reportable condition is described as item III-A-05 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Sample Hospital and other parties to whom Sample Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

September 20, 2005

DAVID A. VAUDT, CPA
Auditor of State